

**Job Series Upgrades Were Proper, but
Projected Cost Savings Could Not Be
Substantiated**

March 2003

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

March 28, 2003

MEMORANDUM FOR ACTING COMMISSIONER WENZEL

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Job Series Upgrades Were Proper, but
Projected Cost Savings Could Not Be Substantiated
(Audit # 200210032)

This report presents the results of our review to determine if certain upgraded job series produced, or are expected to produce, benefits projected in a business needs analysis; to determine the role of the National Treasury Employees Union (NTEU) in the upgrades; and to estimate the cost of these upgrades. This report does not contain any recommendations and is provided as summary information to you and to the Chairman of the Senate Finance Committee, who requested the audit.

In summary, there was adequate justification for each of the upgrades; however, the cost savings that were projected to result from the Customer Service Representative upgrade could not be substantiated. The Tax Examiner and the Data Transcriber upgrades, respectively, were undertaken to reflect the increased complexity of the jobs and to ensure consistent grade levels at all Internal Revenue Service (IRS) sites. The NTEU participated, along with management, in the studies and/or implementation of the upgrades. The estimated cumulative cost of the upgrades was approximately \$144 million.

Copies of this report are also being sent to the IRS managers who are affected by the issues. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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Background

This audit was initiated at the request of Senator Charles Grassley, Chairman of the Senate Finance Committee. Senator Grassley requested that we evaluate whether the Internal Revenue Service (IRS) achieved benefits, such as improvements in service, that it projected would result from upgrading certain job series. To respond to this request, we obtained information from the IRS related to the number of jobs upgraded for each series, the basis for each upgrade, whether there were any measurable benefits corresponding to those originally projected, and the cumulative cost.

Most of the job reclassifications and increases in position grade levels that took place in the 1998 – 2000 time period involved 3 job series and a total of 11,131 jobs. Shown below are the series, title, and number of jobs upgraded for each (see Appendix IV for a description of each job series).

Table 1 – Number of Upgrades by Job Series

Job Series	Job Title	Number of Jobs Upgraded
962	Customer Service Representative	8,064
592	Tax Examiner	1,222
356	Data Transcriber	1,845
Total		11,131

Source: Treasury Integrated Management Information System.

IRS management initiated these job series upgrades by conducting studies to determine whether upgrades would be beneficial to the IRS and appropriate based on job classification guidelines. The National Treasury Employees Union (NTEU) participated, along with management, in the studies and/or implementation of the upgrades. Two of the three series were upgraded based on the studies, while the third was upgraded to correct a pay imbalance among service centers.

The Customer Service Representative upgrades took place primarily to expand the job duties to make it easier to resolve taxpayer questions and concerns with one contact. The Tax Examiner upgrades reflected the increasing complexity of the position. The Data Transcriber position was upgraded to ensure consistency among IRS locations

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because, at certain IRS locations, Data Transcribers were already at a higher grade level.

Our review involved several IRS functions including Agency-Wide Shared Services (AWSS), the Small Business/Self-Employed (SB/SE) Division, the Wage and Investment (W&I) Division, and the National Headquarters Management and Finance. Audit work was performed in Washington, D.C., and Dallas, Texas, from May through November 2002. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Projected Cost Savings From Customer Service Representative Upgrades Could Not Be Substantiated

The Customer Service Representative (series 962) upgrade came about as a result of a study the IRS initiated in April 1998 to address Congressional concerns over customer service and to help properly implement the reorganization and modernization of the IRS.

From 1994 to 1996, many IRS service center functions that dealt with taxpayer compliance with the tax laws were incorporated into the Customer Service function. In addition, the Automated Collection System (ACS), the walk-in assistance, and taxpayer education activities were put under Customer Service. The merger of the various functions under the Customer Service function resulted in employees with differing job titles and grades performing similar work.

The task force performing the study was responsible for identifying positions and determining the content, series, grade structure, and career path for those positions. The project covered all positions that delivered customer services. The workforce redesign was primarily focused on the personnel assigned to the telephone, correspondence, and walk-in functions that assist taxpayers with tax questions and problems.

The study concluded that series 962 should be expanded in support of the IRS mission to provide one-stop customer service to taxpayers. This series was at a higher journeyman level grade commensurate with the greater responsibilities of the new position. A grade 9 lead and grade 11 group

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manager position were also created as a result of upgrading the subordinate positions. The grade 9 lead position¹ was created to deal with complex issues (issues requiring referral from a front-line assistant to someone with more expertise) and reduce the need for resources from other functions, such as Examination and Collection. On September 25, 1998, the IRS notified the NTEU of its decision to implement the series 962 at the grade 8 level. The IRS and NTEU signed a memorandum of understanding on October 1, 1998, establishing procedures for implementation of the new position. The task force provided the following estimates of the impact of the upgrade:

- A total of 9,414 employees and managers would be upgraded at an additional cost of approximately \$25 million per year (estimate for Fiscal Year [FY] 1999).
- A decrease in the need to route calls by approximately 7 percent would represent a potential savings of 625 staff years (a benefit of approximately \$25 million per year).

Based on a June 2002 computer data extract from the Treasury Integrated Management Information System (TIMIS), we estimated that there were a total number of 8,064 upgrades for the 962 series. The cost associated with the upgrades was about \$23.1 million in Calendar Year (CY) 1999 (subsequent years were higher: the average annual cost through the end of 2002 was \$31.5 million). The IRS could not provide the data needed to verify whether there was actually an equivalent cost savings associated with the upgrades.

To initially estimate whether any associated cost savings would result from the upgrades, the task force evaluated whether there would be an improvement in one-stop service. The IRS used the Initial Contact Resolution (ICR) rate as the best indicator of one-stop service. The ICR rate is the number of cases handled without referring the taxpayer to a different IRS representative. The ICR rate in 1998 was

¹ See Appendix V for information on salary by grade levels in the Office of Personnel Management (OPM) General Schedule.

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70 percent. The task force believed that an increase of 10 percent in the rate would indicate a significant improvement in the level of one-stop service.

The study noted that the Customer Service function was expected to handle approximately 70 million calls in 1998.² If the ICR rate improved by 10 percent to 77 percent, the number of routed calls would decrease by approximately 7 percent (5 million calls).³ Based on an annual call production rate of 8,000 calls per assistor, the task force estimated that this would have the effect of adding another 625 people to the telephone function, representing a potential benefit of nearly \$25 million annually that the IRS could use to reduce costs or expand services.

The ICR was replaced by the Weighted Timeliness Rate (WTR) in July 1999. The WTR measures the successful resolution of all issues resulting from a taxpayer's first telephone inquiry. Based on a sample of calls that were quality reviewed by the IRS, the WTR rates from July 1999 through September 2002 have increased each year as shown in Table 2.

**Table 2 – Weighted Timeliness Rates
July 1999 to September 14, 2002⁴**

Year	Volume of Calls	WTR Rate
1999 ⁵	5,937,671	72.9%
2000	30,914,737	78.7%
2001	35,429,193	83.5%
2002	36,305,782	89.8%

Source: W&I Division, Customer Account Services, Program Coordination and Support.

While this measure is an indicator that there may have been efficiencies gained by upgrading the positions, the IRS did not have reliable data to determine whether the increase in

² The 70 million calls include automated calls, as well as assistor calls.

³ This is 70 million calls times a 7 percent increase, which results in 4.9 million calls, rounded to 5 million.

⁴ These statistics are as reported by the IRS (unaudited) and are for assistor calls only.

⁵ This is a partial year.

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the WTR actually translated into a reduction in calls transferred or staff needed to handle an equal volume of calls. Additional information on the actual number of calls transferred, the staff needed, and the change in average call handling times would be needed to substantiate any cost savings associated with the upgrades. The IRS did not attempt to track the cost savings that resulted from the upgrading of the employees. According to the IRS, its reorganization and introduction of new technology each year (including Intelligent Call Routing and enhanced automated services) has made it difficult to make meaningful comparisons that would allow it to derive a cost savings associated with the upgrades.

Tax Examiner Positions Were Upgraded to Reflect the Increased Complexity of the Job

After the Customer Service study, the IRS and NTEU conducted a joint study from January to April 1999 to determine if there were other positions within the service centers that may be performing duties similar to those in the series 962 position. The study focused primarily on the series 592 Tax Examiner positions that involved case resolution and/or telephone contact work. Position management specialists worked with the study teams to provide guidance on classification standards and data gathering. The study showed that the Tax Examiner duties had not changed but that the job had become more complicated due to factors such as stress, a broader range of issues to deal with, and the cross-functional nature of the work. Thus, the reclassification to new positions and/or higher grades was warranted.

The study recommended that employees in the ACS and the Adjustment Correspondence function be given the opportunity to convert to the series 962 position and that employees in other units who worked primarily on the toll-free system also be reclassified as series 962, grade 8 employees. The study also recommended upgrading series 592, grades 6 and 7 employees, by one grade in several of the service center units.

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Data Transcriber Positions Were Upgraded to Ensure Consistent Grade Levels at All Sites

In 1998, the IRS became concerned with the high attrition rates for Data Transcribers (series 356) and initiated a study to determine ways to reduce the high attrition. During this study, the task force noticed that in five service centers the data transcriber position was a grade 4, while in the remaining five centers the same position was a grade 3, even though the employees at all of the centers did similar work.

The study did not contain any recommendations for an upgrade; however, IRS management decided to upgrade the positions from grade 3 to grade 4 at all of the centers to ensure fairness and consistency among the centers. The upgrades occurred in August 1999. While the study did not indicate that an upgrade would reduce attrition rates, there was some possibility that the increase in the grades might also help to reduce the high attrition rate for Data Transcribers. The attrition rates from 1997 through 2002 for the five centers that already had the series 356 position at a grade 4 compared to the five centers that were upgraded are shown in the following table.

Table 3 – Attrition Rate Comparison (1997 through 2002)

Centers	1997	1998	1999	2000	2001	2002
Already at a grade 4	38%	31%	27%	26%	28%	30%
Upgraded from grade 3 to 4	29%	32%	29%	25%	29%	29%

Source: W&I Division, Submission Processing.

Based on the data above, it appears that the upgrading of the position from grade 3 to grade 4 has not had any appreciable effect on retention rates for Data Transcribers. IRS officials stated that the associated change in annual pay (which increases the average annual pay by approximately \$1,560—a 7.7 percent increase) was not enough to significantly reduce attrition rates. Other factors, such as the health of the economy and local employment conditions, generally have a greater effect on hiring and retention.

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The Cumulative Cost of Upgrades for the Three Series Was Approximately \$144 Million

To estimate the additional cost incurred due to the upgrades for the three job series, we analyzed the TIMIS to identify all employees who received a promotion due to the series upgrades.

The estimated cost for the upgrades, projected through CY 2002, including adjustments for each year's cost of living increases and for full and part-time employees,⁶ was approximately \$144 million. This estimate included promotions in subsequent years that were made possible by the series upgrades.

The total additional costs (including employee benefits) for each series upgrade from the effective date through 2002 are shown in Table 4.

Table 4 – Increased Costs Through 2002 for Job Upgrades

Series	Total Costs Through 2002
962	\$127,693,000
592	\$18,650,000
356	\$6,822,000
Sub-Total	\$153,165,000
Less Adjustment for New Hires	(\$9,466,000)
Total Additional Cost	\$143,699,000

Source: TIMIS.

⁶ Many of the employees only work during the filing season (January to April of each year). We used an average of 4 months worked when calculating our estimate.

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Appendix I

Detailed Objectives, Scope, and Methodology

Our objectives were to determine if certain upgraded job series produced, or are expected to produce, benefits projected in a business needs analysis; to determine the role of the National Treasury Employees Union (NTEU) in the upgrades; and to estimate the cost of these upgrades. This audit was initiated at the request of Senator Charles Grassley, Chairman of the Senate Finance Committee.

To accomplish the objectives, we performed the following audit steps:

- I. Determined if the upgraded job series had a business needs analysis and if the upgrades produced the benefits projected in the business needs analysis.
 - A. Identified the job series that have been upgraded since 1997.
 - B. Obtained documentation that supported the upgrades.
 - C. Identified the benefits that were expected as a result of the upgrades.
 - D. Determined if any methodology exists to track the accomplishments of these benefits.
 - E. Determined if the projected improvements were being met.
- II. Determined the NTEU role in these position upgrades.
- III. Validated selected data on the Treasury Integrated Management Information System (TIMIS) for job series 356, 592, and 962 to ensure their accuracy.
 - A. Obtained a download of selected TIMIS data (in June 2002) for the three job series for Calendar Years 1997-2001 from the Agency-Wide Shared Services Transactional Processing staff. We analyzed the data using the IDEA database software. Selection criteria included:
 1. Nature of Action Code 702.
 2. Authorization Code N5M (Promotion because position upgraded) or N7M (Promotion or reassignment due to position reclassification).
 3. Grade.
 - a) Series 962 – GS-8 or higher.
 - b) Series 592 – GS-7 or higher.
 - c) Series 356 – GS-4 or higher.

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- B. Selected a random sample of 113 employees from a universe of 11,699 employees obtained in the download described in step III.A. The random sample selected was based on a 95 percent confidence level, a precision rate of ± 4 percent, and an expected error rate of not more than 5 percent. The sample was generated using a random sampling feature of the IDEA database software.
 - C. Obtained the source documents (Request for Personnel Action [Standard Form 52]) for the 113 employees and compared the information on the source documents to the database to ensure agreement.
- IV. Estimated the costs associated with the upgrades of the three positions.
- A. From the TIMIS, we identified the number of individuals for the 962, 592, and 356 job series that received permanent promotions to the new grades for each year since the series upgrade was approved.
 - B. Calculated the cost of the upgrades by subtracting the salary before the promotion from the salary after the promotion.
 - C. Factored in subsequent cost of living increases. We also factored in the cost of benefits (e.g., retirement and health insurance).

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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner, Small Business/Self-Employed Division S
Commissioner, Wage and Investment Division W
Chief, Agency-Wide Shared Services A
Chief, Communications and Liaison CL
Director, National Headquarters Management and Finance N:ADC:M
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:AR:M
Audit Liaisons:
 Commissioner, Small Business/Self-Employed Division S
 Commissioner, Wage and Investment Division W
 Chief, Agency-Wide Shared Services A
 Director, National Headquarters Management and Finance N:ADC:M

**Office of Personnel Management Definitions of the
General Schedule Occupational Series Included in This Report¹**

GS-356 - Data Transcriber Series

This series covers positions that involve operating or supervising the operation of keyboard-controlled machines (such as card-punch machines; paper tape recording machines, magnetic tape, or disc encoders; optical character equipment; and computer controlled data entry, update, and remote inquiry devices) to transcribe or verify data in a form that can be used in automated data processing systems. The work requires: (1) skill in operating a typewriter or a modified typewriter style alphabetic and numeric keyboard with acceptable speed and accuracy; and (2) the ability to understand and apply machine operating and data transcribing procedures. Data transcribing work that is combined with clerical work is covered by this series, unless the clerical work requires specialized experience or training that constitutes the paramount qualification requirement of the position.

GS-592 - Tax Examining Series

This series includes all positions the paramount duties of which are to perform or supervise work in the Internal Revenue Service involving the processing of original tax returns, establishing tax account records, or changing such records based on later information affecting taxes and refunds; collecting some taxes and/or obtaining tax returns; computing or verifying tax, penalty, and interest; and determining proper tax liability. This work requires knowledge of standardized processing and collection procedures to record tax information and knowledge of applicable portions of tax laws and tax rulings to accept, request proof of, or reject a variety of taxpayer claims, credits, and deductions.

GS-962 - Contact Representative Series

This series covers one-grade interval administrative support positions that supervise, lead, or perform support and related work in connection with: dispersing information to the public on rights, benefits, privileges, or obligations under a body of law; explaining pertinent legal provisions, regulations, and related administrative practices and their application to specific cases; and assisting individuals in developing needed evidence and preparing required documents or in resolving errors, delays, or other problems in obtaining benefits or fulfilling obligations.

¹ Office of Personnel Management, *Handbook of Occupational Groups and Families* (August 2002).

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Appendix V

**Office of Personnel Management
General Schedule Annual Salary Table (Calendar Year 2002)
(including Washington, D.C., Locality Pay)¹**

GS Grade Level	Step									
	1	2	3	4	5	6	7	8	9	10
1	16,451	17,000	17,547	18,091	18,639	18,962	19,500	20,045	20,068	20,575
2	18,497	18,935	19,548	20,068	20,290	20,887	21,483	22,080	22,676	23,273
3	20,181	20,853	21,526	22,198	22,870	23,542	24,215	24,887	25,559	26,231
4	22,655	23,410	24,164	24,919	25,674	26,429	27,183	27,938	28,693	29,447
5	25,347	26,192	27,037	27,882	28,727	29,572	30,417	31,262	32,107	32,952
6	28,253	29,195	30,138	31,080	32,022	32,964	33,906	34,848	35,790	36,732
7	31,397	32,444	33,491	34,538	35,584	36,631	37,678	38,725	39,772	40,818
8	34,772	35,931	37,091	38,250	39,409	40,569	41,728	42,887	44,047	45,206
9	38,406	39,686	40,966	42,245	43,525	44,805	46,085	47,365	48,644	49,924
10	42,294	43,705	45,115	46,525	47,935	49,346	50,756	52,166	53,576	54,986
11	46,469	48,018	49,566	51,115	52,663	54,212	55,760	57,309	58,857	60,405
12	55,694	57,550	59,407	61,263	63,119	64,975	66,831	68,687	70,543	72,400
13	66,229	68,436	70,644	72,851	75,058	77,266	79,473	81,680	83,888	86,095
14	78,265	80,873	83,482	86,090	88,699	91,308	93,916	96,525	99,134	101,742
15	92,060	95,129	98,198	101,267	104,336	107,405	110,474	113,543	116,613	119,682

Each General Schedule (GS) grade has 10 steps. Within-grade increases or step increases are periodic increases in a GS employee's rate of basic pay from one step of the grade of his or her position to the next higher step of that grade. Employees earn within-grade increases upon meeting the following three requirements established by law:

- The employee's performance must be at an acceptable level of competence.
- The employee must have completed the required waiting period for advancement to the next higher step. The waiting period is 1 year each between Steps 1 through 4, 2 years each between Steps 4 through 7, and 3 years each between Steps 7 through 10.
- The employee must not have received an "equivalent increase" in pay (other than a scheduled increase in basic GS pay rates) during the waiting period.

¹ The locality pay varies by region from 8.64 to 15.23 percent. Washington, D.C., at 11.48 percent, is used as an example.